

Message Text

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PAGE 01 VANCOU 00622 211702Z

67

ACTION EB-11

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----- 052500

R 211640Z NOV 73

FM AMCONSUL VANCOUVER

TO SECSTATE WASHDC 1452

INFO AMEMBASSY OTTAWA

AMCONSUL CALGARY

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EO 11652: N/A

TAGS: ENRG, CA

SUBJ: CLARIFICATION ON ARRANGEMENTS TO RAISE PRICE OF B.C.
NATURAL GAS

REF: VANCOUVER 609

1. REFTTEL OUTLINES BASIC AGREEMENT BETWEEN B.C. PETROLEUM CORPORATION, A CROWN CORPORATION (BCP) AND WESTCOAST TRANSMISSION LIMITED TO INTERJECT BCP INTO NATURAL GAS DISTRIBUTION SYSTEM IN B.C. AND SIMULTANEOUSLY TO RAISE WHOLESALE PRICES. IN SUBSEQUENT PRESS RELEASES AND CONVERSATIONS WITH CONGEN OFFICERS AND EMBASSY OTTAWA'S ECONOMIC COUNSELOR, OFFICIALS OF BCP AND WESTCOAST HAVE ELABORATED ON FOLLOWING POINTS:

(A) QUOTE THE CORPORATION (BCP) HAS NO PLANS TO ENGAGE IN EXPLORATION PRODUCTION OR TRANSMISSION OF NATURAL GAS - ITS SOLE ANTICIPATED FUNCTION BEING THAT OF A TRADER IN NATURAL GAS. UNQUOTE.

(B) A PRICE AGREEMENT HAS BEEN SIGNED WITH B.C. HYDRO WHICH BUYS 67 PERCENT OF ALL NATURAL GAS CONSUMED IN B.C.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 VANCOU 00622 211702Z

WESTCOAST EXPECTS TO REACH AGREEMENT WITH THE OTHER TWO

MAJOR DISTRIBUTORS IN THE NEAR FUTURE - STILL TO BE
RESOLVED IN WHETHER THEY WILL PAY THE SAME PRICE AS
B.C. HYDRO AS THEY HAVE IN PAST OR WHETHER SOME DIFFER-
ENTIAL WILL BE ALLOWED BECAUSE OF SHORTER DELIVERY
DISTANCES. B.C. HYDRO HAS AGREED TO PAY .58 CENTS PER
MCF. MR. KELLY GIBSON CHAIRMAN OF WESTCOAST WAS QUOTED
ON NOV. 16 BY THE VANCOUVER PROVINCE AS SAYING QUOTE
WE WOULD ARRANGE TO INCREASE THE PRICE TO B.C. HYDRO AND
FOLLOW THE GUIDELINES SET OUT BY THE B.C. ENERGY COMMISSION
REPORT, .58 CENTS NOW, .66 CENTS NOVEMBER 1, 1974 AND
.71 CENTS NOVEMBER 1, 1975 UNQUOTE.

(C)

BCP HAS INVITED ALL PRODUCERS TO DISCUSS ASSIGNMENT OF
THEIR GAS SUPPLY CONTRACTS TO BCP. BCP INTENDS TO PAY
SUBSTANTIALLY HIGHER WELL HEAD PRICES ALMOST IMMEDIATELY
IN ORDER TO PROVIDE NEW INCENTIVES FOR EXPLORATION AND
DEVELOPMENT OF RESERVES. THERE ARE 120 CONTRACTS WITH
80 PRODUCERS INVOLVED. SHOULD ASSIGNMENT OF CONTRACTS
NOT REPEAT NOT BE APPROVED BY THE PRODUCERS, WESTCOASTS
BOND HOLDERS, OR OTHER NECESSARY PARTIES WITHIN 180 DAYS,
THE AGREEMENT PROVIDES THAT, QUOTE SALES REVENUES REMAINING
IN WESTCOASTS HANDS OVER AND ABOVE WESTCOASTS COST OF
SERVICE, WILL BE PAID TO THE PRODUCERS UNQUOTE -- QUOTE
THE GOVERNMENT WOULD BE ABLE TO APPLY AN APPROPRIATE ROYALTY

TO ENSURE PROPER DISTRIBUTION OF INCREASED REVENUES BETWEEN
PRODUCERS AND THE PROVINCIAL TREASURY UNQUOTE.

(D) WESTCOAST WILL HENCEFORTH BUY NATURAL GAS ONLY FROM BCP
AT A PRICE WHICH WILL BE CALCULATED BY WORKING BACK FROM
THE WHOLESALE SALES PRICE DEDUCTING THE COSTS OF DELIVERY
PLUS 9.5 PERCENT ON INVESTED CAPITAL. THE 9.5 PERCENT
FIGURE IS SUBJECT TO VARIATION BY AGREEMENT, BY ORDER OF
THE FEDERAL ENERGY BOARD, OR BY ARBITRATION PROCEEDINGS.

2. COMMENT: BCP, THE B.C. ENERGY COMMISSION AND WESTCOAST APPEAR
SATISFIED WITH NEW AGREEMENTS AND EXPRESS CONFIDENCE THAT PRODUCERS
WILL FIND IT IN THEIR INTEREST TO ACCEPT HIGHER PRICES IMMEDIATELY
AVAILABLE FROM BCP. HIGHER PRICES ARE EXPECTED TO BE A STRONG
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PAGE 03 VANCOU 00622 211702Z

STIMULUS TO FURTHER EXPLORATION AND DEVELOPMENT.

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